



State of New Jersey
URBAN ENTERPRISE ZONE AUTHORITY
101 SOUTH BROAD STREET
PO Box 822
6TH FLOOR
TRENTON, NJ 08625-0822

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

RICHARD E. CONSTABLE, III
Acting Commissioner

MEMORANDUM

To: Chairperson Caren Franzini, Audit Chairperson Charles Richman & Members of the Urban Enterprise Zone Authority
From: Peter B. Lijoi, Esq., Executive Director
Date: March 8, 2012
Subject: Fiscal Year 2010 and Fiscal Year 2011 Comprehensive Annual Reports

Attached please find the following:

1. Final Copies of the NJUEZA FY10 and FY11 Audit Reports;
2. Auditor's FY10 and FY11 Reports to the Audit Committee;
3. Report of Significant Actions – NJUEZA FY10 & FY11;
4. Audit Committee Meeting Minutes – September 12, 2011 and February 29, 2012;
5. Governor's Authorities Unit Report dated January 3, 2012.

The Audits combined with the UEZ Report of Significant Actions for FY 2010 and FY 2011 serve as the comprehensive reports of authority operations required pursuant to EO 37 (Corzine). These reports include the audited financial statements for the FYs ending June 30, 2010 and June 30, 2011, prepared pursuant to Generally Accepted Accounting Principles for a governmental entity.

Per its procedures, as well as section 9 of Executive Order 122 (McGreevey), the Audit Committee, prior to the Audit's release, reviewed the draft annual financial reports, considered the relevancy, accuracy, and completeness of the information presented, and accepted the reports at its Audit Committee Meetings held on September 12, 2011 (FY10) and February 29, 2012 (FY11).

Separately, the Audit Committee reviewed management's assessment of the Authority's financial position as of June 30, 2010 and June 30, 2011, and related operating results for the respective Fiscal Years. In conjunction with the review, the Audit Committee met independently with Mercadien, P.C., the Authority's independent auditor, to discuss the results of the fiscal year-end audits. At the conclusion of the two meetings the Committee accepted the Audits, the Management Reports, the Report of Significant Actions, and recommended same to the Authority, at its next regular meeting, for review and acceptance.



The next meeting of the New Jersey Urban Enterprise Zone Authority Board is scheduled for Wednesday, April 11th. Accordingly, the Board will consider a resolution at that time, indicating the Committee has reviewed the audited financial statements and found them to be satisfactory.

If you have any questions or comments, please feel free to contact Charles Richman, Audit Committee Chair at 609-292-1337 or me at 609-292-1912.

PBL: ims

Cc: Acting Commissioner Richard E. Constable, III

**NEW JERSEY URBAN ENTERPRISE ZONE
ASSISTANCE FUND**

Basic Financial Statements

June 30, 2010

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

Table of Contents

June 30, 2010

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	1-4
INDEPENDENT AUDITORS' REPORT.....	5-6
BASIC FINANCIAL STATEMENTS	
BALANCE SHEETS.....	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED NET ASSETS.....	8
STATEMENTS OF CASH FLOWS.....	9
NOTES TO FINANCIAL STATEMENTS.....	10 - 15
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	16-17

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2010

This section of the annual financial report of the New Jersey Urban Enterprise Zone ("UEZ") Program's, a non-major special revenue fund of the State of New Jersey (the "State"), annual financial report presents management's discussion and analysis of the UEZ Program's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the UEZ Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Assets - decreased	\$ 94,291,272	28.55 %
Liabilities - decreased	107,643,949	100.00 %
Program Revenues - decreased	11,236,025	10.90 %
Program Expenses - decreased	51,281,602	39.10 %
Net Assets - increased	13,352,677	6.00 %

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The New Jersey Urban Enterprise Zone Assistance Fund (the "UEZAF") is a non-major special revenue fund that receives funding through the State's reduced retail sales tax program (3.5% sales tax). Currently, there are thirty-two (32) zones in thirty-seven (37) qualifying UEZ municipalities in the State of New Jersey. The accrual basis of accounting is used for the preparation of UEZ financial reports.

FINANCIAL ANALYSIS OF THE NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

Balance Sheets

The table below shows the changes in the balance sheets between the fiscal years ended June 30, 2010 and 2009. Explanations for significant changes are presented below:

	June 30,			% Increase (Decrease)
	2010	2009	Difference	
Cash and cash equivalents	\$ 5,831,754	\$ 7,387,431	\$ (1,555,677)	(21.06)%
Investments	223,014,648	322,872,701	(99,858,053)	(30.93)%
Due from State	7,122,458	-	7,122,458	100.00 %
Total assets	<u>\$ 235,968,860</u>	<u>\$ 330,260,132</u>	<u>\$ (94,291,272)</u>	(28.55)%
Due to State	\$ -	\$ 107,643,949	\$ (107,643,949)	(100.00)%
Encumbrances (restricted)	142,153,392	130,188,663	11,964,729	9.19 %
Continuing appropriations	93,815,468	92,427,520	1,387,948	1.50 %
Total restricted net assets	<u>235,968,860</u>	<u>222,616,183</u>	<u>13,352,677</u>	6.00 %
Total liabilities and net assets	<u>\$ 235,968,860</u>	<u>\$ 330,260,132</u>	<u>\$ (94,291,272)</u>	(28.55)%

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2010

Balance Sheets (Continued)

Current Assets - consist of cash and cash equivalents, and invested funds held for payment of current program liabilities. The 28.55% decrease in current assets is the result of the repayment to the State of New Jersey for overpayment of sales tax revenues in June 2010.

Current Liabilities - are the liabilities "Due to State" transferable from the Urban Enterprise Zone Assistance Fund to the State General Fund. Current liabilities show a decrease of (100.00)%, or \$107,643,949 in transferable funds due to a payment made to the State General Fund in June 2010.

Continuing Appropriations - is the balance of unexpended funds resulting from program revenues over program expenses. Continuing appropriations shows an increase of 1.50%, or \$1,387,948, in comparison to fiscal year 2009.

Total Net Assets - increased by 6.00%, or \$13,352,677. Fiscal year 2010 experienced a reduction in expenses as compared to fiscal year 2009. However, the increase is primarily due to a decrease in the amount due to the State General Fund for overpayments of sales tax revenues received in fiscal years 2004 through 2010.

Statements of Revenues, Expenses and Changes in Restricted Net Assets

The report below provides the program activities and change in net assets of the New Jersey Urban Enterprise Zone Assistance Fund. See below for explanation of significant changes.

	<u>Year Ended June 30,</u>			<u>% Increase</u>
	<u>2010</u>	<u>2009</u>	<u>Difference</u>	<u>(Decrease)</u>
Sales tax revenues	\$ 91,812,370	\$ 103,048,895	\$ (11,236,525)	(10.90)%
Licenses and fees	41,000	40,500	500	1.23 %
Total program revenues	<u>91,853,370</u>	<u>103,089,395</u>	<u>(11,236,025)</u>	(10.90)%
Community development and environment management	7,768,851	5,232,667	2,536,184	48.47 %
Economic planning, development and security	59,788,798	64,921,338	(5,132,540)	(7.91)%
Transfers to other funds	<u>12,324,178</u>	<u>61,009,424</u>	<u>(48,685,246)</u>	(79.80)%
Total program expenses	<u>79,881,827</u>	<u>131,163,429</u>	<u>(51,281,602)</u>	(39.10)%
Program income	11,971,543	(28,074,034)	40,045,577	(142.64)%
Investment return	<u>1,381,134</u>	<u>4,901,118</u>	<u>(3,519,984)</u>	(71.82)%
Change in restricted net assets	13,352,677	(23,172,916)	36,525,593	(157.62)%
Restricted net assets, beginning of year	<u>222,616,183</u>	<u>245,789,099</u>	<u>(23,172,916)</u>	(9.43)%
Restricted net assets, end of year	<u>\$ 235,968,860</u>	<u>\$ 222,616,183</u>	<u>\$ 13,352,677</u>	6.00 %

Program Revenues - consist of sales tax revenue and service fees. Service fees are received when a participating business within a zone pays a fee "in lieu" of the required employment level. Service fee revenue increased 1.23%. The amount of license and fee revenue is indirectly a factor of employment/job creation, which experienced an upturn during the year.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2010

Statements of Revenues, Expenses and Changes in Restricted Net Assets (Continued)

Program Revenues (continued) - When zones are authorized, they receive 100% of the sales tax revenues collected in the zone for the first five years of their 15-year life cycle. For the next five years, the zone is credited for 67% of the sales tax revenue collected in the zone and for the last five years, the zone is credited for 33% of the sales tax revenue collected. At the end of 15 years, the zone must be re-authorized by the Authority. Upon re-authorization, the zone will start the 15-year cycle again. Sales tax revenues decreased 10.90% due to a reduction in the amount of sales tax credited to the zones during fiscal year 2010.

Program Expenses - are economic development projects and administrative expenses on both the State and municipal levels. Program expenses vary directly with sales tax revenue - the more sales tax revenue collected, the more funds available for program expenditures.

Restricted Net Assets - at the beginning and end of the year represent the fund balance, consisting of cash and cash equivalents (cash on hand) and investments (deposits in the New Jersey Cash Management Fund), including any increases (decreases) in such balance resulting from program income (loss) and return on investments (interest).

Statements of Cash Flows

The statements of cash flows measure the operating and investing activities of the Urban Enterprise Zone program.

	<u>Year Ended June 30,</u>			<u>% Increase</u>
	<u>2010</u>	<u>2009</u>	<u>Difference</u>	<u>(Decrease)</u>
<u>From Operating Activities</u>				
Receipt of sales taxes	\$ 91,812,370	\$ 103,048,895	\$ (11,236,525)	(10.90)%
Receipt of licenses and fees	41,000	40,500	500	1.23 %
Payments of program expenses	<u>(194,648,234)</u>	<u>(89,291,146)</u>	<u>(105,357,088)</u>	117.99 %
Net cash (used in) provided by operating activities	<u>(102,794,864)</u>	<u>13,798,249</u>	<u>(116,593,113)</u>	(844.98)%
<u>From Investing Activities</u>				
Interest on investments	1,381,134	4,901,118	(3,519,984)	(71.82)%
Purchases of investments, net	<u>99,858,053</u>	<u>(18,630,812)</u>	<u>118,488,865</u>	(635.98)%
Net cash provided by (used in) investing activities	<u>101,239,187</u>	<u>(13,729,694)</u>	<u>114,968,881</u>	(837.37)%
Net (decrease) increase in cash and cash equivalents	(1,555,677)	68,555	(1,624,232)	(2,369.24)%
Cash and cash equivalents, beginning of year	<u>7,387,431</u>	<u>7,318,876</u>	<u>68,555</u>	0.94 %
Cash and cash equivalents, end of year	<u>\$ 5,831,754</u>	<u>\$ 7,387,431</u>	<u>\$ (1,555,677)</u>	(21.06)%

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2010

Statements of Cash Flows (Continued)

	<u>Year Ended June 30,</u>		<u>Difference</u>	<u>% Increase (Decrease)</u>
	<u>2010</u>	<u>2009</u>		
<u>Reconciliation of Program</u>				
<u>Income to Net Cash From</u>				
<u>Operating Activities</u>				
Program income	\$ 11,971,543	\$ (28,074,034)	\$ 40,045,577	(142.64)%
Change in amount due from/to State	<u>(114,766,407)</u>	<u>41,872,283</u>	<u>(156,638,690)</u>	(374.09)%
Net cash (used in) provided by operating activities	<u>\$ (102,794,864)</u>	<u>\$ 13,798,249</u>	<u>\$ (116,593,113)</u>	(844.98)%

CONTACTING THE NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Jersey citizens, taxpayers and legislators with a general overview of the New Jersey Urban Enterprise Zone Assistance Fund's finances and to demonstrate the Fund's accountability for the appropriations that it receives. If you have questions about this report or need additional information, contact the New Jersey Urban Enterprise Zone Program at 650 South Broad Street, P.O. Box 822, Trenton, New Jersey 08625-0822 or visit its website at www.state.nj.us/dca/affiliates/uez.

INDEPENDENT AUDITORS' REPORT

To the New Jersey Urban Enterprise Zone Authority regarding the
New Jersey Urban Enterprise Zone Assistance Fund

We have audited the accompanying basic financial statements of the governmental activities of the New Jersey Urban Enterprise Zone Assistance Fund (the "Fund"), as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Fund, as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2011, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

- AN INDEPENDENTLY OWNED MEMBER,
MCGGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note H to the financial statements, certain events occurred subsequent to June 30, 2010, that may significantly impact the financial position and operations of the Fund in future years.

Mercaderes, PC
Certified Public Accountants

July 11, 2011

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

BALANCE SHEETS

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 5,831,754	\$ 7,387,431
Investments	223,014,648	322,872,701
Due from State	<u>7,122,458</u>	<u>-</u>
Total assets	<u>\$235,968,860</u>	<u>\$330,260,132</u>
LIABILITIES AND NET ASSETS		
Due to State	\$ -	\$ 107,643,949
Net assets - restricted by legislation	<u>235,968,860</u>	<u>222,616,183</u>
Total liabilities and net assets	<u>\$235,968,860</u>	<u>\$330,260,132</u>

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED NET ASSETS

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Program revenues		
Sales tax revenues	\$ 91,812,370	\$ 103,048,895
Licenses and fees	<u>41,000</u>	<u>40,500</u>
Total program revenues	<u>91,853,370</u>	<u>103,089,395</u>
Program expenses		
Community development and environment management	7,768,851	5,232,667
Economic planning, development and security	59,788,798	64,921,338
Transfers to other funds	<u>12,324,178</u>	<u>61,009,424</u>
Total program expenses	<u>79,881,827</u>	<u>131,163,429</u>
Program income	11,971,543	(28,074,034)
Non-program revenue		
Investment return	<u>1,381,134</u>	<u>4,901,118</u>
Change in restricted net assets	13,352,677	(23,172,916)
Restricted net assets, beginning of year	<u>222,616,183</u>	<u>245,789,099</u>
Restricted net assets, end of year	<u>\$ 235,968,860</u>	<u>\$ 222,616,183</u>

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipt of licenses and fees	\$ 41,000	\$ 40,500
Receipt of sales taxes	91,812,370	103,048,895
Payments of program expenses	<u>(194,648,234)</u>	<u>(89,291,146)</u>
Net cash (used in) provided by operating activities	<u>(102,794,864)</u>	<u>13,798,249</u>
Cash flows from investing activities		
Interest on investments	1,381,134	4,901,118
Sales (purchases) of investments, net	<u>99,858,053</u>	<u>(18,630,812)</u>
Net cash provided by (used in) investing activities	<u>101,239,187</u>	<u>(13,729,694)</u>
Net (decrease) increase in cash and cash equivalents	(1,555,677)	68,555
Cash and cash equivalents, beginning of year	<u>7,387,431</u>	<u>7,318,876</u>
Cash and cash equivalents, end of year	<u>\$ 5,831,754</u>	<u>\$ 7,387,431</u>
Reconciliation of program income to net cash from operating activities		
Cash flows from operating activities		
Program income	\$ 11,971,543	\$ (28,074,034)
Net changes in liabilities		
Due from/to State	<u>(114,766,407)</u>	<u>41,872,283</u>
Net cash (used in) provided by operating activities	<u>\$ (102,794,864)</u>	<u>\$ 13,798,249</u>

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

New Jersey Urban Enterprise Zone Assistance Fund (the "Fund"), is a non-major special revenue fund of the State of New Jersey (the "State"), in accordance with P.L. 1983, c.303. The purpose of the Fund is to concentrate the benefits of zone designation and to provide gradual and geographically balanced introduction of such zones. The law is aimed at encouraging the revitalization of some of the State's most distressed urban areas with regards to incidence of poverty and unemployment. The revenues of the Fund are generated from a portion of the sales tax revenues of each zone, which are designated for reinvestment in improvement projects for each of the respective zones. There are currently thirty-two (32) designated Urban Enterprise Zones (the "UEZ") located within thirty-seven (37) municipalities throughout the State.

Basis of Accounting

The Fund is a non-major special revenue fund of the State of New Jersey. The Fund's financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report (the "CAFR").

In its accounting and financial reporting, the Fund follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. Per GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable, and cleared by GASB; AICPA Practice Bulletins, if applicable, and cleared by GASB; Implementation Guides published by GASB; AICPA pronouncements that are not specially applicable to state and governmental entities; Financial Accounting Standards Board ("FASB") Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

The Fund is generated by sales tax revenue collected from each of the designated zones. Sales tax revenue is recognized when collected by the State from the respective zones. License and fee revenue is recognized when earned.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety (90) days or less.

Investments

In the balance sheet, the Fund carries all investments at their fair values. Investments consist of deposits with the State of New Jersey Cash Management Fund.

Restricted Net Assets

Net assets are restricted for the purposes outlined in P.L. 1983, c.303 (the act that created the Urban Enterprise Zone Program), which include the undertaking of public improvements for and payment to qualifying Urban Enterprise Zones for capital projects and/or projects that promote economic activity.

Program and Non-Program Revenues and Expenses

The Fund defines program revenues and expenses as activities resulting from providing services related to its mission. Program revenues include all transactions and events that are not defined as capital and related financing, non-capital financing, or investing activities. Non-program revenues include any income earned on investments.

Income Taxes

The Fund is exempt from all federal and state income taxes and real estate taxes.

Due from/to State

The Fund is required to reimburse various State agencies for administrative expenses incurred for the coordination and administration of the Fund's program. All of the Fund's investment income is transferred to the State. Also included in the amount due to State as of June 30, 2009, are estimated overpayments of sales tax revenues to the Fund for the years 2004 through 2010. See Note G for further explanation.

B. CASH AND CASH EQUIVALENTS

The Fund follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires uncollateralized deposits exposed to custodial risk to be disclosed. Following is a summary of the Fund's cash deposits by financial institution and the amounts exposed to custodial credit risk at June 30, 2010 and 2009. The Fund's deposits at Wachovia are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$250,000 for the years ended June 30, 2010 and 2009, respectively.

	June 30, 2010		June 30, 2009	
	Bank Balance	Book Balance	Bank Balance	Book Balance
Wachovia	\$ 7,914,192	\$ 5,831,754	\$ 718,429	\$ 7,387,431
Total cash balance	7,914,192	<u>\$ 5,831,754</u>	718,429	<u>\$ 7,387,431</u>
Total collateralized deposits	<u>250,000</u>		<u>250,000</u>	
Total deposits exposed to custodial credit risk	<u>\$ 7,664,192</u>		<u>\$ 468,429</u>	

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

C. INVESTMENTS

New Jersey statutes permit the deposit of public funds in the State of New Jersey Cash Management Fund ("NJCMF") or in institutions located in New Jersey that are insured by the FDIC or by any other agencies of the United States that insure deposits.

New Jersey statutes require public depositories to maintain collateral, as follows, for deposits of public funds that exceed insurance limits:

- (a) The market value of the collateral must equal 5% of the average daily balance of public funds, or
- (b) If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments are stated at fair market value and consist of deposits in the NJCMF. Original cost basis and fair market value at June 30, 2010 and 2009, are summarized as follows:

	June 30, 2010		June 30, 2009	
	Fair		Fair	
	<u>Original Cost</u>	<u>Market Value</u>	<u>Original Cost</u>	<u>Market Value</u>
New Jersey Cash Management Fund	<u>\$ 223,014,648</u>	<u>\$ 223,014,648</u>	<u>\$ 322,872,701</u>	<u>\$ 322,872,701</u>

Credit Risk and Custodial Credit Risk

The Fund does not have a formal policy to limit credit risk or custodial credit risk but is restricted by the investment policies of the State of New Jersey. For an investment, custodial credit risk is the risk that, in the event of a bank failure, the Fund will not be able to recover the value of its investments that are in the possession of the bank. The Fund's investment in the NJCMF is excluded from credit risk and custodial credit risk as a pooled investment.

D. COMMITMENTS

As of June 30, 2010 and 2009, the Authority had committed \$142.2 and \$130.2 million of grant awards, respectively, for payment of future project costs from the Fund to various zones.

E. CONCENTRATION OF RISK

The Fund maintains cash and cash equivalent and pooled investment balances which may exceed federally insured limits. The Fund historically has not experienced any credit-related losses.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

F. DUE FROM/TO STATE AND TRANSFERS TO OTHER FUNDS

The Fund's administrative activities are conducted by various departments and agencies of the State. The Fund reimburses the State for the costs associated with the administration of the Fund's operations. Pursuant to P.L. 1983, c.303 and subsequent amendments, the Fund must also transfer all earnings on investments to the State. Also included in the amounts due to State at June 30, 2009, are estimated overpayments of sales tax revenues to the Fund for the years 2004 through 2010. See Note G for further explanation. At June 30, 2010 and 2009, the net amount due (from) to the State was \$(7,122,458) and \$107,643,949, respectively.

Transfers to other funds in the statement of revenues, expenses and changes in net assets consists of the following:

	Year Ended June 30,	
	2010	2009
Administrative costs	\$ 2,697,693	\$ 6,235,960
Investment return	1,381,134	4,901,118
Estimated overpayment of sales tax revenues	<u>8,245,351</u>	<u>49,872,346</u>
Total transfers to other funds	<u>\$ 12,324,178</u>	<u>\$ 61,009,424</u>

G. OVERPAYMENTS TO THE FUND AND REPAYMENT TO THE STATE

1. Executive Order No. 150 (Corzine)

On August 19, 2009, Executive Order No. 150 (Corzine) was issued. Prior to fiscal year 2010, the full amount of the sales and use tax revenues collected in the zones was credited to the Fund. Executive Order No. 150 (Corzine) states that this was not consistent with constitutional mandates and the overriding desire of the Corzine administration to provide and ensure property tax relief to the maximum extent possible when the sales and use tax rate was increased to 7% effective July 15, 2006. Therefore, Executive Order No. 150 (Corzine) requires that the amount of the one-half of one cent increase in the sales and use tax collected by the zones during fiscal years 2007 through 2010 should be transferred from the Fund for deposit into the General Fund of the State of New Jersey, and an equal amount should be retained in the Fund, with the condition that these retained funds be used for projects that will result in property tax relief. The amount to be transferred to the General Fund, \$57,717,387, of which \$8,245,341 and \$16,490,682 had been accrued for the years ended June 30, 2010 and 2009, respectively, as transfers to other funds, was restricted in the Fund in fiscal year 2010 and is not currently available for program expenditures.

Executive Order No. 150 (Corzine) also requires that for fiscal years beginning on and after July 1, 2010, an amount equal to one half of the dedicated revenues allocable to each zone in the Fund shall be available to each such zone, subject to the execution of a Memorandum of Agreement ("MOA") with the State Treasurer, on an annual basis, with respect to the disposition and use of amounts equal to the dedicated revenues that are credited to the Fund in the UEZ municipalities. The MOA shall govern the use of the amount of one half of the dedicated portion of the revenues and shall include an explanation regarding the manner in which the proposed use of the revenues will result in property tax relief. The MOA has not been issued.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

G. OVERPAYMENTS TO THE FUND AND REPAYMENT TO THE STATE (CONTINUED)

2. Overfunding of Certain Zones

During fiscal year 2010, it was determined that nine zones were overfunded by the State of New Jersey for the sales tax revenues allocated to the zones during fiscal years 2004 through 2009. The total amount of the overfunding had been estimated by the State of New Jersey to be approximately \$20.4 million, of which \$20.4 million and \$16,666,667 had been accrued as of June 30, 2010 and 2009, respectively, as transfers to other funds.

3. Repayment to the State General Fund

In response to Executive Order No. 150 (Corzine) and the overpayment of certain zones identified in notes 1 and 2 above, in May 2010, the State Treasurer, as manager of the Fund, proposed a plan to repay the State General Fund to the New Jersey Office of Management and Budget. This plan proposed that action be taken to transfer approximately \$78.1 million from the Fund to the State General Fund as a fiscal year 2010 State budget solution. The \$78.1 million transfer to the State General Fund would include the overfunding of sales tax revenue to nine zones and the overpayments from the increase in the sales tax rate for property tax relief discussed above. The Office of Management and Budget agreed to the proposed plan and on June 29, 2010, the Senate and General Assembly of the State of New Jersey passed P.L. 2010, c.19, which included the transfer of \$78.1 million from the Fund to the State General Fund.

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after balance sheet date but before July 11, 2011, the date the financial statements were available to be issued. Following items were determined by management to require disclosure:

Program Assessment by Independent Consultants

During fiscal year 2011, an assessment of the New Jersey Urban Enterprise Zone Program (the "Program") was performed by an independent consultant to measure the Program's performance through the creation of jobs and return on public investment during the period 2002 through 2008. The two significant conclusions reached by the consultants were that the Program delivered a limited economic impact on the zone economies and that the Program produced a negative return on the State's investment. As a result of the consultant's report, on February 15, 2011, the Chairperson of the New Jersey Urban Enterprise Zone Authority, along with the Commissioner of the New Jersey Department of Community Affairs issued a memorandum to the State Treasurer recommending that the Program be terminated effective July 1, 2011. However, the memorandum also recommended that the business tax incentives and reduced sales tax rate offered in the zones be maintained.

Program Appropriations for Future Fiscal Years

Effective for the fiscal year ending June 30, 2011, the Fund did not receive an appropriation of sales tax revenue from the participating zones in the State's operating budget. The sales tax revenue generated from the participating zones will instead be appropriated to the State General Fund. However, the Fund did receive an appropriation for its administrative costs at the State level during fiscal year 2011.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

H. SUBSEQUENT EVENTS (CONTINUED)

Program Appropriations for Future Fiscal Years (Continued)

In June 2011, the State's fiscal year 2012 operating budget was approved. Similar to the fiscal year 2011 budget, the Fund did not receive an appropriation of sales tax revenue from the participating zones. However, it did receive an appropriation for administrative costs at the State level during fiscal year 2012.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the New Jersey Urban Enterprise Zone Authority Regarding the
New Jersey Urban Enterprise Zone Assistance Fund

We have audited the financial statements of New Jersey Urban Enterprise Zone Assistance Fund (the "Fund"), as of and for the year ended June 30, 2010, and have issued our report thereon dated July 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

- AN INDEPENDENTLY OWNED MEMBER,
McGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the New Jersey Urban Enterprise Zone Authority, management and others within the Fund, and the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

Marcadon, P.C.
Certified Public Accountants

July 11, 2011

**NEW JERSEY URBAN ENTERPRISE ZONE
ASSISTANCE FUND**

Basic Financial Statements

June 30, 2011

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

Table of Contents

June 30, 2011

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	1-4
INDEPENDENT AUDITORS' REPORT.....	5-6
BASIC FINANCIAL STATEMENTS	
BALANCE SHEETS.....	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED NET ASSETS.....	8
STATEMENTS OF CASH FLOWS.....	9
NOTES TO FINANCIAL STATEMENTS.....	10 - 14
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	15-16

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

This section of the annual financial report of the New Jersey Urban Enterprise Zone ("UEZ") Program's, a non-major special revenue fund of the State of New Jersey (the "State"), annual financial report presents management's discussion and analysis of the UEZ Program's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the UEZ Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Assets - decreased	\$ 49,690,105	21.06 %
Liabilities - increased	19,007,900	100.00 %
Program Revenues - increased	70,641	0.08 %
Program Expenses - increased	81,400,103	101.90 %
Net Assets - decreased	68,698,005	29.11 %

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The New Jersey Urban Enterprise Zone Assistance Fund (the "UEZAF") is a non-major special revenue fund that receives funding through the State's reduced retail sales tax program (3.5% sales tax). Currently, there are thirty-two (32) zones in thirty-seven (37) qualifying UEZ municipalities in the State of New Jersey. The accrual basis of accounting is used for the preparation of UEZ financial reports.

FINANCIAL ANALYSIS OF THE NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

Balance Sheets

The table below shows the changes in the balance sheets between the fiscal years ended June 30, 2011 and 2010. Explanations for significant changes are presented below:

	June 30,			% Increase (Decrease)
	2011	2010	Difference	
Cash and cash equivalents	\$ 7,648,890	\$ 5,831,754	\$ 1,817,136	31.16 %
Investments	178,629,865	223,014,648	(44,384,783)	(19.90)%
Due from State	-	7,122,458	(7,122,458)	(100.00)%
Total assets	<u>\$ 186,278,755</u>	<u>\$ 235,968,860</u>	<u>\$ (49,690,105)</u>	(21.06)%
Due to State	\$ 19,007,900	\$ -	\$ 19,007,900	100.00 %
Encumbrances (restricted)	-	142,153,392	(142,153,392)	(100.00)%
Continuing appropriations	167,270,855	93,815,468	73,455,387	78.30 %
Total restricted net assets	<u>167,270,855</u>	<u>235,968,860</u>	<u>(68,698,005)</u>	(29.11)%
Total liabilities and net assets	<u>\$ 186,278,755</u>	<u>\$ 235,968,860</u>	<u>\$ (49,690,105)</u>	(21.06)%

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2011

Balance Sheets (Continued)

Current Assets - consist of cash and cash equivalents, and invested funds held for payment of current program liabilities. The 21.06% decrease in current assets is the result of the payment to the State of New Jersey for zone sales taxes collected in fiscal year 2011 that were appropriated to the State general fund.

Current Liabilities - represent the liabilities "Due to State" transferable from the Urban Enterprise Zone Assistance Fund to the State General Fund. Current liabilities show an increase of 100.00%, or \$19,007,900 in transferable funds due to zone sales tax revenues being appropriated to the State general fund in fiscal year 2011.

Continuing Appropriations - is the balance of unexpended funds resulting from program revenues over program expenses. Continuing appropriations shows an increase of 78.30%, or \$73,455,387, in comparison to fiscal year 2010.

Total Net Assets - decreased by 29.11%, or \$68,698,005. In fiscal year 2011, transfers to the State General Fund increased due to zone sales taxes collected in fiscal year 2011 being appropriated to the State General Fund.

Statements of Revenues, Expenses and Changes in Restricted Net Assets

The report below provides the program activities and change in net assets of the New Jersey Urban Enterprise Zone Assistance Fund. See below for explanation of significant changes.

	<u>Year Ended June 30,</u>			<u>% Increase</u>
	<u>2011</u>	<u>2010</u>	<u>Difference</u>	<u>(Decrease)</u>
Sales tax revenues	\$ 91,923,511	\$ 91,812,370	\$ 111,141	0.12 %
Licenses and fees	500	41,000	(40,500)	(98.78)%
Total program revenues	<u>91,924,011</u>	<u>91,853,370</u>	<u>70,641</u>	0.08 %
Community development and environment management	5,076,496	7,768,851	(2,692,355)	(34.66)%
Economic planning, development and security	63,759,442	59,788,798	3,970,644	6.64 %
Transfers to other funds	<u>92,445,992</u>	<u>12,324,178</u>	<u>80,121,814</u>	650.12 %
Total program expenses	<u>161,281,930</u>	<u>79,881,827</u>	<u>81,400,103</u>	101.90 %
Program income	(69,357,919)	11,971,543	(81,329,462)	(679.36)%
Investment return	<u>659,914</u>	<u>1,381,134</u>	<u>(721,220)</u>	(52.22)%
Change in restricted net assets	(68,698,005)	13,352,677	(82,050,682)	(614.49)%
Restricted net assets, beginning of year	<u>235,968,860</u>	<u>222,616,183</u>	<u>13,352,677</u>	6.00 %
Restricted net assets, end of year	<u>\$ 167,270,855</u>	<u>\$ 235,968,860</u>	<u>\$ (68,698,005)</u>	(29.11)%

Program Revenues - consist of sales tax revenue and service fees. Service fees are received when a participating business within a zone pays a fee "in lieu" of the required employment level. Service fee revenue decreased 98.78%. The amount of license and fee revenue is indirectly a factor of employment/job creation, which experienced a downturn during the year.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2011

Statements of Revenues, Expenses and Changes in Restricted Net Assets (Continued)

Program Revenues (continued) - When zones are authorized, they receive 100% of the sales tax revenues collected in the zone for the first five years of their 15-year life cycle. For the next five years, the zone is credited for 67% of the sales tax revenue collected in the zone and for the last five years, the zone is credited for 33% of the sales tax revenue collected. At the end of 15 years, the zone must be re-authorized by the Authority. Upon re-authorization, the zone will start the 15-year cycle again. Sales tax revenues increased 0.12% due to an increase in the amount of sales tax collected by the zones during fiscal year 2011.

Program Expenses - are economic development projects and administrative expenses on both the State and municipal levels. Program expenses vary directly with sales tax revenue - the more sales tax revenue collected, the more funds available for program expenditures.

Restricted Net Assets - at the beginning and end of the year represent the fund balance, consisting of cash and cash equivalents (cash on hand) and investments (deposits in the New Jersey Cash Management Fund), including any increases (decreases) in such balance resulting from program income (loss) and return on investments (interest).

Statements of Cash Flows

The statements of cash flows measure the operating and investing activities of the Urban Enterprise Zone program.

	<u>Year Ended June 30.</u>			<u>% Increase</u>
	<u>2011</u>	<u>2010</u>	<u>Difference</u>	<u>(Decrease)</u>
<u>From Operating Activities</u>				
Receipt of sales taxes	\$ 91,923,511	\$ 91,812,370	\$ 111,141	0.12 %
Receipt of licenses and fees	500	41,000	(40,500)	(98.78)%
Payments of program expenses	(135,151,572)	(194,648,234)	59,496,662	(30.57)%
Net cash used in operating activities	(43,227,561)	(102,794,864)	59,567,303	(57.95)%
<u>From Investing Activities</u>				
Interest on investments	659,914	1,381,134	(721,220)	(52.22)%
Sales of investments, net	44,384,783	99,858,053	(55,473,270)	(55.55)%
Net cash provided by investing activities	45,044,697	101,239,187	(56,194,490)	(55.51)%
Net increase (decrease) in cash and cash equivalents	1,817,136	(1,555,677)	3,372,813	(216.81)%
Cash and cash equivalents, beginning of year	5,831,754	7,387,431	(1,555,677)	(21.06)%
Cash and cash equivalents, end of year	\$ 7,648,890	\$ 5,831,754	\$ 1,817,136	31.16 %

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2011

Statements of Cash Flows (Continued)

	<u>Year Ended June 30,</u>			<u>% Increase</u>
	<u>2011</u>	<u>2010</u>	<u>Difference</u>	<u>(Decrease)</u>
<u>Reconciliation of Program</u>				
<u>Income to Net Cash Used In</u>				
<u>Operating Activities</u>				
Program (loss) income	\$ (69,357,919)	\$ 11,971,543	\$ (81,329,462)	(679.36)%
Change in amount due to/from				
State	<u>26,130,358</u>	<u>(114,766,407)</u>	<u>140,896,765</u>	(122.77)%
Net cash used in operating				
activities	<u>\$ (43,227,561)</u>	<u>\$ (102,794,864)</u>	<u>\$ 59,567,303</u>	(57.95)%

CONTACTING THE NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Jersey citizens, taxpayers and legislators with a general overview of the New Jersey Urban Enterprise Zone Assistance Fund's finances and to demonstrate the Fund's accountability for the appropriations that it receives. If you have questions about this report or need additional information, contact the New Jersey Urban Enterprise Zone Program at 101 South Broad Street, P.O. Box 822, Trenton, New Jersey 08625-0822 or visit its website at www.state.nj.us/dca/affiliates/uez.

INDEPENDENT AUDITORS' REPORT

To the New Jersey Urban Enterprise Zone Authority regarding the
New Jersey Urban Enterprise Zone Assistance Fund

We have audited the accompanying basic financial statements of the governmental activities of the New Jersey Urban Enterprise Zone Assistance Fund (the "Fund"), as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Fund, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 1, 2012 and July 11, 2011, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

- AN INDEPENDENTLY OWNED MEMBER,
MCGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

PENNSYLVANIA OFFICE:
HOLLAND, PA
TEL 215-355-4860
FAX 215-825-8110

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720

www.mercadien.com

OVER 45 YEARS OF SERVICE TO THE COMMUNITY

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note H to the financial statements, the New Jersey Urban Enterprise Zone Program will be terminated during fiscal year 2012.

Mercaderes, P.C.
Certified Public Accountants

March 1, 2012

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

BALANCE SHEETS

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 7,648,890	\$ 5,831,754
Investments	178,629,865	223,014,648
Due from State	<u>-</u>	<u>7,122,458</u>
Total assets	<u>\$ 186,278,755</u>	<u>\$ 235,968,860</u>
LIABILITIES AND NET ASSETS		
Due to State	\$ 19,007,900	\$ -
Net assets - restricted by legislation	<u>167,270,855</u>	<u>235,968,860</u>
Total liabilities and net assets	<u>\$ 186,278,755</u>	<u>\$ 235,968,860</u>

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED NET ASSETS

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Program revenues		
Sales tax revenues	\$ 91,923,511	\$ 91,812,370
Licenses and fees	<u>500</u>	<u>41,000</u>
Total program revenues	<u>91,924,011</u>	<u>91,853,370</u>
Program expenses		
Community development and environment management	5,076,496	7,768,851
Economic planning, development and security	63,759,442	59,788,798
Transfers to other funds	<u>92,445,992</u>	<u>12,324,178</u>
Total program expenses	<u>161,281,930</u>	<u>79,881,827</u>
Program (loss) income	(69,357,919)	11,971,543
Non-program revenue		
Investment return	<u>659,914</u>	<u>1,381,134</u>
Change in restricted net assets	(68,698,005)	13,352,677
Restricted net assets, beginning of year	<u>235,968,860</u>	<u>222,616,183</u>
Restricted net assets, end of year	<u>\$ 167,270,855</u>	<u>\$ 235,968,860</u>

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipt of licenses and fees	\$ 500	\$ 41,000
Receipt of sales taxes	91,923,511	91,812,370
Payments of program expenses	<u>(135,151,572)</u>	<u>(194,648,234)</u>
Net cash used in operating activities	<u>(43,227,561)</u>	<u>(102,794,864)</u>
 Cash flows from investing activities		
Interest on investments	659,914	1,381,134
Sales of investments, net of purchases	<u>44,384,783</u>	<u>99,858,053</u>
Net cash provided by investing activities	<u>45,044,697</u>	<u>101,239,187</u>
 Net increase (decrease) in cash and cash equivalents	1,817,136	(1,555,677)
Cash and cash equivalents, beginning of year	<u>5,831,754</u>	<u>7,387,431</u>
Cash and cash equivalents, end of year	<u>\$ 7,648,890</u>	<u>\$ 5,831,754</u>
 Reconciliation of program (loss) income to net cash used in operating activities		
Cash flows from operating activities		
Program (loss) income	\$ (69,357,919)	\$ 11,971,543
Net changes in liabilities		
Due to/from State	<u>26,130,358</u>	<u>(114,766,407)</u>
Net cash used in operating activities	<u>\$ (43,227,561)</u>	<u>\$ (102,794,864)</u>

See notes to financial statements.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

New Jersey Urban Enterprise Zone Assistance Fund (the "Fund"), is a non-major special revenue fund of the State of New Jersey (the "State"), in accordance with P.L. 1983, c.303. The purpose of the Fund is to concentrate the benefits of zone designation and to provide gradual and geographically balanced introduction of such zones. The law is aimed at encouraging the revitalization of some of the State's most distressed urban areas with regards to incidence of poverty and unemployment. The revenues of the Fund are generated from a portion of the sales tax revenues of each zone, which are designated for reinvestment in improvement projects for each of the respective zones. There are currently thirty-two (32) designated Urban Enterprise Zones (the "UEZ") located within thirty-seven (37) municipalities throughout the State.

Basis of Accounting

The Fund is a non-major special revenue fund of the State of New Jersey. The Fund's financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report (the "CAFR").

In its accounting and financial reporting, the Fund follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. Per GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable, and cleared by GASB; AICPA Practice Bulletins, if applicable, and cleared by GASB; Implementation Guides published by GASB; AICPA pronouncements that are not specially applicable to state and governmental entities; Financial Accounting Standards Board ("FASB") Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

The Fund is generated by sales tax revenue collected from each of the designated zones. Sales tax revenue is recognized when collected by the State from the respective zones. License and fee revenue is recognized when earned.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety (90) days or less.

Investments

In the balance sheet, the Fund carries all investments at their fair values. Investments consist of deposits with the State of New Jersey Cash Management Fund.

Restricted Net Assets

Net assets are restricted for the purposes outlined in P.L. 1983, c.303 (the act that created the Urban Enterprise Zone Program), which include the undertaking of public improvements for and payment to qualifying Urban Enterprise Zones for capital projects and/or projects that promote economic activity.

Program and Non-Program Revenues and Expenses

The Fund defines program revenues and expenses as activities resulting from providing services related to its mission. Program revenues include all transactions and events that are not defined as capital and related financing, non-capital financing, or investing activities. Non-program revenues include any income earned on investments.

Income Taxes

The Fund is exempt from all federal and state income taxes and real estate taxes.

Due from/to State

The Fund is required to reimburse various State agencies for administrative expenses incurred for the coordination and administration of the Fund's program. All of the Fund's investment income is transferred to the State. Also included in the amount due to State as of June 30, 2011, are collections of sales tax revenues by the respective zones, net of administrative expenses, that were appropriated to the State general fund in fiscal year 2011. See Note H for further explanation.

B. CASH AND CASH EQUIVALENTS

Following is a summary of the Fund's cash deposits by financial institution and the amounts exposed to custodial credit risk at June 30, 2011 and 2010. The Fund's deposits at Wells Fargo (Wachovia) are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$250,000 for the years ended June 30, 2011 and 2010, respectively.

	June 30, 2011		June 30, 2010	
	Bank	Book	Bank	Book
	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>
Wells Fargo (Wachovia)	\$ 2,166,477	\$ 7,648,890	\$ 7,914,192	\$ 5,831,754
Total cash balance	2,166,477	<u>\$ 7,648,890</u>	7,914,192	<u>\$ 5,831,754</u>
Total collateralized deposits	<u>250,000</u>		<u>250,000</u>	
Total deposits exposed to custodial credit risk	<u>\$ 1,916,477</u>		<u>\$ 7,664,192</u>	

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

C. INVESTMENTS

New Jersey statutes permit the deposit of public funds in the State of New Jersey Cash Management Fund ("NJCMF") or in institutions located in New Jersey that are insured by the FDIC or by any other agencies of the United States that insure deposits.

New Jersey statutes require public depositories to maintain collateral, as follows, for deposits of public funds that exceed insurance limits:

- (a) The market value of the collateral must equal 5% of the average daily balance of public funds, or
- (b) If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments are stated at fair market value and consist of deposits in the NJCMF. Original cost basis and fair market value at June 30, 2011 and 2010, are summarized as follows:

	June 30, 2011		June 30, 2010	
	Original Cost	Fair Market Value	Original Cost	Fair Market Value
New Jersey Cash Management Fund	<u>\$ 178,629,865</u>	<u>\$ 178,629,865</u>	<u>\$ 223,014,648</u>	<u>\$ 223,014,648</u>

Credit Risk and Custodial Credit Risk

The Fund does not have a formal policy to limit credit risk or custodial credit risk but is restricted by the investment policies of the State of New Jersey. For an investment, custodial credit risk is the risk that, in the event of a bank failure, the Fund will not be able to recover the value of its investments that are in the possession of the bank. The Fund's investment in the NJCMF is excluded from credit risk and custodial credit risk as a pooled investment.

D. COMMITMENTS

As of June 30, 2011 and 2010, the Authority had committed \$0 and \$142.2 million of grant awards, respectively, for payment of future project costs from the Fund to various zones.

E. CONCENTRATION OF RISK

The Fund maintains cash and cash equivalent and pooled investment balances which may exceed federally insured limits. The Fund historically has not experienced any credit-related losses.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

F. TRANSFERS TO OTHER FUNDS

The Fund's administrative activities are conducted by various departments and agencies of the State. The Fund reimburses the State for the costs associated with the administration of the Fund's operations. Pursuant to P.L. 1983, c.303 and subsequent amendments, the Fund must also transfer all earnings on investments to the State. Also included in transfers to other funds for the year ended June 30, 2011, are sales tax revenues appropriated to the State General Fund. This transfer of sales tax revenues to the State General Fund was made in accordance with P.L. 2010, c.19.

Transfers to other funds in the statement of revenues, expenses and changes in net assets consists of the following:

	Year Ended June 30,	
	2011	2010
Administrative costs	\$ 3,464,979	\$ 2,697,693
Investment return	659,914	1,381,134
Estimated overpayment of sales tax revenues	-	8,245,351
Transfer of sales tax revenue to State General Fund	88,321,099	-
Total transfers to other funds	<u>\$ 92,445,992</u>	<u>\$ 12,324,178</u>

G. OVERPAYMENTS TO THE FUND AND REPAYMENT TO THE STATE

1. Executive Order No. 150 (Corzine)

On August 19, 2009, Executive Order No. 150 (Corzine) was issued. Prior to fiscal year 2010, the full amount of the sales and use tax revenues collected in the zones was credited to the Fund. Executive Order No. 150 (Corzine) states that this was not consistent with constitutional mandates and the overriding desire of the Corzine administration to provide and ensure property tax relief to the maximum extent possible when the sales and use tax rate was increased to 7% effective July 15, 2006. Therefore, Executive Order No. 150 (Corzine) required that the amount of the one-half of one cent increase in the sales and use tax collected by the zones during fiscal years 2007 through 2010 should be transferred from the Fund for deposit into the General Fund of the State of New Jersey, and an equal amount should be retained in the Fund, with the condition that these retained funds be used for projects that will result in property tax relief. The amount required to be deposited in the State General Fund as a result of Executive Order No. 150 (Corzine), \$57,717,387, was transferred to the State General Fund during fiscal year 2010.

Executive Order No. 150 (Corzine) also required that for fiscal years beginning on and after July 1, 2010, an amount equal to one half of the dedicated revenues allocable to each zone in the Fund shall be available to each such zone, subject to the execution of a Memorandum of Agreement ("MOA") with the State Treasurer, on an annual basis, with respect to the disposition and use of amounts equal to the dedicated revenues that are credited to the Fund in the UEZ municipalities. The MOA shall govern the use of the amount of one half of the dedicated portion of the revenues and shall include an explanation regarding the manner in which the proposed use of the revenues will result in property tax relief. The MOA has not been issued.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

G. OVERPAYMENTS TO THE FUND AND REPAYMENT TO THE STATE (CONTINUED)

2. Overfunding of Certain Zones

During fiscal year 2010, it was determined that nine zones were overfunded by the State of New Jersey for the sales tax revenues allocated to the zones during fiscal years 2004 through 2009. The total amount of the overfunding had been estimated by the State of New Jersey to be approximately \$20.4 million, which was transferred from the Fund to the State General Fund as part of P.L. 2010, c.19 at the end of fiscal year 2010.

H. SIGNIFICANT AND SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after balance sheet date but before March 1, 2012, the date the financial statements were available to be issued. Following items were determined by management to require disclosure:

Program Assessment by Independent Consultants

During fiscal year 2011, an assessment of the New Jersey Urban Enterprise Zone Program (the "Program") was performed by an independent consultant to measure the Program's performance through the creation of jobs and return on public investment during the period 2002 through 2008. The two significant conclusions reached by the consultants were that the Program delivered a limited economic impact on the zone economies and that the Program produced a negative return on the State's investment. As a result of the consultant's report, on February 15, 2011, the Chairperson of the New Jersey Urban Enterprise Zone Authority, along with the Commissioner of the New Jersey Department of Community Affairs issued a memorandum to the State Treasurer recommending that the Program be terminated effective July 1, 2011. The sales tax revenue generated from the participating zones would instead be appropriated to the State General Fund. In accordance with the consultant's assessment, the State's fiscal year 2012 budget, as adopted by P.L. 2011, c.85, terminated the Program and appropriated the sales tax revenues collected by the zones to the State General Fund effective July 1, 2011.

Transfer of unexpended balances

Pursuant to P.L. 2011 c.85, adopted June 30, 2011, any unexpended balances at the end of fiscal year 2011 residing in the accounts for each enterprise zone are to be disbursed back to such enterprise zones no later than November 1, 2011. On November 1, 2011, the Fund transferred the unexpended balances to the respective enterprise zones in accordance with P.L. 2011, c.85.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the New Jersey Urban Enterprise Zone Authority Regarding the
New Jersey Urban Enterprise Zone Assistance Fund**

We have audited the financial statements of New Jersey Urban Enterprise Zone Assistance Fund (the "Fund"), as of and for the year ended June 30, 2011, and have issued our report thereon dated March 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

- AN INDEPENDENTLY OWNED MEMBER,
MCGILDRAY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

PENNSYLVANIA OFFICE:
HOLLAND, PA
TEL 215-355-4860
FAX 215-825-8110

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720

www.mercadien.com

OVER 45 YEARS OF SERVICE TO THE COMMUNITY

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the New Jersey Urban Enterprise Zone Authority, management and others within the Fund, and the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

Mercader, PC
Certified Public Accountants

March 1, 2012

**NEW JERSEY URBAN ENTERPRISE
ZONE ASSISTANCE FUND**

Report to the Audit Committee

June 30, 2010

July 11, 2011

To the Audit Committee of the
New Jersey Urban Enterprise Zone Authority
101 South Broad Street
PO Box 882
Trenton, NJ 08625-0882

Attention: Charles Richman, Chair

We are pleased to present this report related to our audit of the financial statements of the New Jersey Urban Enterprise Zone Assistance Fund (the "Fund") for the year ended June 30, 2010. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Fund's financial reporting process.

This report is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the New Jersey Urban Enterprise Zone Authority.

Very truly yours,

Mercadien, P.C.
Certified Public Accountants

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

- AN INDEPENDENTLY OWNED MEMBER,
MCGGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

PENNSYLVANIA OFFICE:
HOLLAND, PA
TEL 215-355-4860
FAX 215-825-8110

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720

www.mercadien.com

OVER 45 YEARS OF SERVICE TO THE COMMUNITY

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

July 11, 2011

Page 2

Contents

Required Communications

Summary of Recorded Audit Adjustments

Exhibit A – Certain Written Communications Between Management and Our Firm
Representation Letter

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated April 1, 2011.
Accounting Practices	Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Fund. The Fund did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.
Significant or Unusual Transactions	We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Alternative Treatments Discussed with Management	We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Management's Judgments and Accounting Estimates	There were no significant accounting estimates included in the financial statement.
Financial Statement Disclosures	We did not identify any items to discuss with you related to the neutrality, consistency and clarity of the disclosures in the financial statements.
Audit Adjustments	Audit adjustments recorded by the Fund are shown on the attached "Summary of Recorded Audit Adjustments."

Area	Comments
Uncorrected Misstatements	There were no uncorrected misstatements accumulated during the audit.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the Fund are attached as Exhibit A.

New Jersey Urban Enterprise Zone Assistance Fund
Summary of Recorded Audit Adjustments
Year Ended June 30, 2010

Description	Effect — Increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expense
To correct opening net asset balance.	\$ -	\$ 13,352,672	\$(13,352,672)	\$ -	\$ -
To accrue for liability due to State for overpayments due to sales tax increase.	-	8,245,341	-	-	8,245,341
To apply payment to the State of New Jersey to accrued balance.	-	(78,117,387)	-	-	(78,117,387)
Total	<u>\$ -</u>	<u>\$(56,519,374)</u>	<u>\$(13,352,672)</u>	<u>\$ -</u>	<u>\$(69,872,046)</u>

July 11, 2011

Page 6

Exhibit A - Material Written Communications Between Management and Our Firm

- *Representation Letter*



State of New Jersey
URBAN ENTERPRISE ZONE PROGRAM
101 SOUTH BROAD STREET
PO BOX 822
6TH FLOOR
TRENTON, NJ 08625-0822

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

LORI GRIFA
Commissioner

July 11, 2011

Mercadien, P.C., Certified Public Accountants
P.O. Box 7648
Princeton, NJ 08543-7648

In connection with your audit of the basic financial statements of the New Jersey Urban Enterprise Zone Assistance Fund (the "Fund") as of and for the years ended June 30, 2010 and 2009, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of July 11, 2011 the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We are a special revenue fund of the State of New Jersey, as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
3. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We are responsible for compliance with laws and regulations applicable to the Fund including adopting, approving and amending budgets.
6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
7. We have made available to you:
 - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.



- b. All minutes of the meetings of the New Jersey Urban Enterprise Zone Authority (the "Authority") and committees of Authority members or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory, or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
8. We have no knowledge of fraud or suspected fraud affecting the Fund involving:
- a. Management or employees who have significant roles in the internal control.
 - b. Others where the fraud could have a material effect on the financial statements.
9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund received in communications from employees, former employees, regulators or others.
11. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Fund's ability to record, process, summarize and report financial data.
12. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
14. The following have been properly recorded and/or disclosed in the financial statements:
- a. Related-party transactions.
 - b. Guarantees, whether written or oral, under which the Fund is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - e. The fair value of investments.

- f. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - g. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the Risks and Uncertainties Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - h. Deposits and investment securities category of custodial credit risk.
15. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provision has been made to reduce receivables to their estimated net collectable amounts.
16. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.
17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No.10.
18. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.
19. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. Net asset components (restricted and unrestricted) and fund balances reserves and designations are properly classified and, when applicable, approved.

21. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
22. Revenues are appropriately classified in the statements of revenues, expenses and changes in net assets within program revenues and general revenues.
23. Required supplementary information is properly measured and presented.
24. We are responsible for and have reviewed and approved the proposed adjustments to the trial balance identified during the audit, which are included in the summarized schedule of posted adjustments and will post all adjustments accordingly. These adjustments are attached as Appendix A.
25. We have reviewed, approved and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
26. We specifically represent that the disclosures in Note G of the financial statements relating to Executive Order No. 150 (Corzine), the overfunding of nine zones, and the repayment to the State of New Jersey are a complete and accurate presentation of the facts and circumstances surrounding these events to the best of our knowledge as of the date of this letter.

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm:

1. We are responsible for:
 - a. Compliance with the laws, regulations and provisions of contracts and agreements applicable to the Fund.
 - b. Establishing and maintaining effective internal control over financial reporting.
2. We have identified and disclosed to you all laws, regulations and provisions of contracts and agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
3. We have a process to track the status of audit findings and recommendations.
4. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
5. We have reviewed, approved and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through the date of this letter, have been recognized or disclosed in the financial statements. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date that would require recognition or disclosure in the financial statements. In addition, we specifically represent that the disclosures


of subsequent events included in Note H to the financial statements regarding the consultant's assessment of the UEZ program and future funding by the State of New Jersey are a complete and accurate presentation of the facts and circumstances surrounding these events to the best of our knowledge as of the date of this letter. We further represent that as of the date of this letter, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Very truly yours,

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

Charles A. Richman, Assistant Commissioner and
Chair, UEZ Audit Committee



BY: Peter B. Lijoi, Executive Director, UEZ

Cc: Charles A. Richman, Chairperson UEZ Audit Committee
Caren Franzini, UEZ Chairperson

APPENDIX A

Following are the proposed adjustments to the trial balance for the June 30, 2010, audit:

Net Assets	\$ 13,352,672	
Due to State of New Jersey		\$ 13,352,672
<i>To correct opening net assets balance</i>		
Due to State of New Jersey	\$ 69,872,046	
Transfers to other funds		\$ 69,872,046
<i>To accrue liability due to State for overpayments due to sales tax increase and to apply payment made to the State against the accrued balance</i>		

**NEW JERSEY URBAN ENTERPRISE
ZONE ASSISTANCE FUND**

Report to the Audit Committee

June 30, 2011

March 1, 2012

To the Audit Committee of the
New Jersey Urban Enterprise Zone Authority
101 South Broad Street
P.O. Box 882
Trenton, NJ 08625-0882

Attention: Charles Richman, Audit Committee Chair

We are pleased to present this report related to our audit of the financial statements of the New Jersey Urban Enterprise Zone Assistance Fund (the "Fund") for the year ended June 30, 2011. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Fund's financial reporting process.

This report is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the New Jersey Urban Enterprise Zone Authority.

Very truly yours,

Mercadien, P.C.
Certified Public Accountants

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

- AN INDEPENDENTLY OWNED MEMBER,
MCGladREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

PENNSYLVANIA OFFICE:
HOLLAND, PA
TEL 215-355-4860
FAX 215-825-8110

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720

www.mercadien.com

OVER 45 YEARS OF SERVICE TO THE COMMUNITY

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

March 1, 2012

Page 2

Contents

Required Communications

Exhibit A – Certain Written Communications Between Management and Our Firm Representation Letter

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America, and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated July 21, 2011.
Accounting Practices	<p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Fund. The Fund did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period that should be brought to your attention for approval.</p>
Significant or Unusual Transactions	We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Alternative Treatments Discussed with Management	We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Management's Judgments and Accounting Estimates	There were no significant accounting estimates included in the financial statements.
Financial Statement Disclosures	We did not identify any items necessary to bring to your attention relating to the neutrality, consistency and clarity of the disclosures in the financial statements.
Audit Adjustments	There were no adjustments to the original trial balance presented to us to conduct our audit.

Area	Comments
Uncorrected Misstatements	There were no uncorrected misstatements accumulated during the audit.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the Fund are attached as Exhibit A.

March 1, 2012

Page 5

Exhibit A - Material Written Communications Between Management and Our Firm

- *Representation Letter*



State of New Jersey
URBAN ENTERPRISE ZONE AUTHORITY
101 SOUTH BROAD STREET
PO BOX 822
6TH FLOOR
TRENTON, NJ 08625-0822

CHRIS CHRISTIE
Governor

KIM GUADAGNO
La. Governor

RICHARD E. CONSTABLE, III
Acting Commissioner

March 1, 2012

Mercadien, P.C., Certified Public Accountants
P.O. Box 7648
Princeton, NJ 08543-7648

In connection with your audit of the basic financial statements of the New Jersey Urban Enterprise Zone Assistance Fund (the "Fund") as of and for the years ended June 30, 2011 and 2010, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of March 1, 2012 the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We are a special revenue fund of the State of New Jersey, as this term is defined in Section 2100 of the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*.
3. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We are responsible for compliance with laws and regulations applicable to the Fund including those regarding the adopting, approving and amending of budgets.
6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
7. We have made available to you:
 - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.



- b. All minutes of the meetings of the New Jersey Urban Enterprise Zone Authority (the "Authority") and committees of Authority members or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory, or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
8. We have no knowledge of fraud or suspected fraud affecting the Fund involving:
- a. Management or employees who have significant roles in the internal control.
 - b. Others where the fraud could have a material effect on the financial statements.
9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund received in communications from employees, former employees, regulators or others.
11. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Fund's ability to record, process, summarize and report financial data.
12. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
14. The following, if any, have been properly recorded and/or disclosed in the financial statements:
- a. Related-party transactions.
 - b. Guarantees, whether written or oral, under which the Fund is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - e. The fair value of investments.

- f. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - g. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the Risks and Uncertainties Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - h. Deposits and investment securities category of custodial credit risk.
15. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
16. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.
17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.
18. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.
19. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

20. Net asset components (restricted and unrestricted) and fund balances reserves and designations are properly classified and, when applicable, approved.
21. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of revenues, expenses and changes in net assets and allocations have been made on a reasonable basis.
22. Revenues are appropriately classified in the statements of revenues, expenses and changes in net assets within program revenues and general revenues.
23. Required supplementary information is properly measured and presented.
24. We have reviewed, approved and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
25. We specifically represent that the disclosures in Notes G and H of the financial statements relating to Executive Order No. 150 (Corzine), the overfunding of nine zones, and the termination of the UEZ program in fiscal 2012 are a complete and accurate presentation of the facts and circumstances surrounding these events to the best of our knowledge as of the date of this letter.

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm:

1. We are responsible for:
 - a. Compliance with the laws, regulations and provisions of contracts and agreements applicable to the Fund.
 - b. Establishing and maintaining effective internal control over financial reporting.
2. We have identified and disclosed to you all laws, regulations and provisions of contracts and agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
3. We have a process to track the status of audit findings and recommendations.
4. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
5. We have reviewed, approved and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through the date of this letter, have been recognized or disclosed in the financial statements. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date that would require recognition or disclosure in the financial statements. In addition, we specifically represent that the disclosures

of significant and subsequent events included in Note H to the financial statements regarding the consultant's assessment of the UEZ program and dissolution of the Fund by the State of New Jersey are a complete and accurate presentation of the facts and circumstances surrounding these events to the best of our knowledge as of the date of this letter. We further represent that as of the date of this letter, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Very truly yours,

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND



Peter Lijoi, Executive Director, UEZ

3.

Report of Significant Actions - New Jersey Urban Enterprise Zone Authority – EO 37

During the Fiscal Year ended June 30, 2010, the New Jersey Urban Enterprise Zone Authority completed the following:

- Authorized 123 Zone Assistance Funds projects;
- Authorized \$52.6 Million in ZAF for those projects and amendments to other projects;
- Granted Certification to 1,141 new firms into the program and processed Annual Reports for 5,540 other firms
- Newly Certified Zone Businesses brought 7,549 jobs while existing Certified Zone Businesses reported a net decline of 5,670 jobs on their annual filing reports. These statistics are not audited or verified and are derived from voluntary self-reporting.
- Revised regulations concerning firms' participation in and the management of the program were published and implemented.
- The UEZA Board approved the following Policy Circulars:
 - 10-01 Closed Circuit Surveillance or related Systems
 - Zone Assistance Funds may pay for 100% of costs to purchase and install CCTV equipment for use within a UEZ.
 - Operating costs for personnel requires 20% municipal share.
 - All projects must include a thorough discussion of costs, both initial and life cycle, along with the "Surveillance Plan/"
 - 10-02 UEZ Assistance Fund Project Contract Amendments – Increase and/or Scope
 - Supersedes Policy Circular #98-10
 - Revises project contract revision criteria to:
 - Change in Scope and/or increases of 10% or greater is a separate agenda item for the Authority either as an Amendment or as a new project proposal;
 - Amendments less than 10% may be listed in the Consent Agenda
 - No contract Amendment may exceed 20%.
 - 10-03 Use of UEZ Funds for Property Acquisition
 - Proposed acquisition projects must include:
 - A recent property appraisal; and,
 - Funding will not exceed appraised value plus certain specified related costs. A "review appraisal" shall be required and become the basis if there are two or more competing appraisals.
 - The Authority may subsequently authorize a different amount upon submission of detailed information concerning negotiations, mitigating factors and viable alternatives to purchase (such as eminent domain, etc.).
- Pursuant to Policy Circular 07-01 "UEZ Ethics Compliance Procedure – Documentation of Filing of Financial Disclosures Statement", an annual compliance survey was conducted of all Urban Enterprise Zones in order to ensure compliance with P.L.2006, c34, approved July 8, 2006, amending NJSA C.52:27H-88 Section 29.a., requiring that:

- Any individual, including an individual who is not directly employed by a municipality, with the authority to administer, allocate or approve the use of zone assistance funds is subject to the "Local Government Ethics Law," P.L.1991, c.29 (C.40A:9-22.1 et seq.), unless the individual is a State employee or a special State officer.
- A report of the financial statements for the NJUEZA for the Fiscal Year ending June 30, 2010 prepared by Mercadien, P.C. Certified Public Accountants.

Therefore, I, Peter B. Lijoi, Director of the New Jersey Urban Enterprise Zone, certify that during Fiscal Year 2010, to the best of my knowledge, information and belief, the New Jersey Urban Enterprise Zone Authority has followed all of the authority's standards, procedures, and internal control, except as otherwise presented in the State Auditor's Report of the Department of Community Affairs, Urban Enterprise Zone Program for the period July 1, 2002 to September 16, 2009, and released as of April 15, 2010, available at: <http://www.njleg.state.nj.us/legislativepub/Auditor/82658.pdf>.



Peter B. Lijoi, Executive Director 09/06/2011

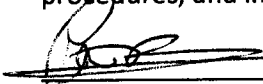
Report of Significant Actions - New Jersey Urban Enterprise Zone Authority – EO 37

During the Fiscal Year ended June 30, 2011, the New Jersey Urban Enterprise Zone Authority completed the following:

- Responsibility for all Zone Assistance Projects was transferred to the respective municipalities as part of the Fiscal Year 2012 State Budget. Consequently, all projects approved or in progress during FY 2011 were terminated by resolution of the Authority adopted on August 10, 2011. Before said terminations, the activity for FY 2011 was:
 - Authorized 70 Zone Assistance Funds projects;
 - Authorized \$26.8 Million in ZAF for those projects and amendments to other projects;
- Granted Certification to 948 new firms into the program and approved Annual Reports for 5,999 other firms
- Newly Certified Zone Businesses created 6,885 jobs while existing Certified Zone Businesses reported a net increase of 4,974 jobs on their annual filing reports. These statistics are not audited or verified and are derived from voluntary self-reporting.
- To improve the processing of applications, the design of an online certification system was initiated in April, 2011, with implementation of Phase 1 – New Applications set for July 6, 2011, Phase 2- Annual Reports Set for September 6, 2011 and Phase 3 – Recertification Applications set for November 7, 2011. An upgrade to Premier Business Services to allow Zone Businesses to process all applications, reports, and tax payments on line was initiated in April for implementation in Fiscal Year 2012. A zone map standardization program and on line zone business location wizard project was initiated for release in late Winter Fiscal Year 2012. All projects began during Fiscal Year 2011 as planned and were on schedule at the close of the Fiscal Year. This was a significant initiative launched to reduce bureaucracy and cut red tape for Zone Businesses consistent with the Administration's Initiative to improve the business climate in the State.
- The UEZA Board began consideration of but did not approve a Policy Circular the submission of a 2011-2015 Five-Year Zone Development Plan [ZDP] by each of the Urban Enterprise Zones. With the changes in the program being considered by the Administration and by the Legislature, the ZDP would await the changes to finalize.
- Pursuant to Policy Circular 07-01 "UEZ Ethics Compliance Procedure – Documentation of Filing of Financial Disclosures Statement", an annual compliance survey was initiated of all Urban Enterprise Zones in order to ensure compliance with P.L.2006, c34, approved July 8, 2006, amending NJSA C.52:27H-88 Section 29.a., requiring that:
 - Any individual, including an individual who is not directly employed by a municipality, with the authority to administer, allocate or approve the use of zone assistance funds is subject to the "Local Government Ethics Law," P.L.1991, c.29 (C.40A:9-22.1 et seq.), unless the individual is a State employee or a special State officer.
 - With transfer of all financial management of project funds to the various municipalities with the start of FY 2012, management of ethics compliance became a local responsibility as well.
- An audit report of the financial statements for the NJUEZA for the Fiscal Year ending June 30, 2010 completed by Mercadien, P.C. Certified Public Accountants and

an exit conference was conducted with DCA management on September 12, 2011. No adverse findings were reported and the audit report and minutes were submitted to the Governor's Authorities Unit as required.

Therefore, I, Peter B. Lijoi, Executive Director of the New Jersey Urban Enterprise Zone, certify that during Fiscal Year 2011, to the best of my knowledge, information and belief, the New Jersey Urban Enterprise Zone Authority has followed all of the authority's standards, procedures, and internal control,

A handwritten signature in black ink, appearing to read 'P. Lijoi', is written over a horizontal line.

Peter B. Lijoi, Executive Director 02/24/2012

NJUEZA 2010 AUDIT COMMITTEE MEETING MINUTES
Monday, September 12, 2011, 3:00 PM
NJ Department of Community Affairs
Teleconference

ATTENDEES:

Charles Richman, Chairman, UEZA Audit Committee
Caren Franzini, Deputy Chairman, UEZA Audit Committee
Patricia Roach, Deputy Attorney General
Bob Bartolone, Director, Office of Auditing, DCA
Peter B. Lijoi, Executive Director, UEZA
Anthony Giordano, Office of Auditing, DCA
Flynn Fleming, Accountant, DCA
Ann Zawartkay, Mercadien
Don Conway, Mercadien

Eric Jaso and Taneshia Nash Laird, UEZA Audit Committee Members were not in attendance during the call.

Charles Richman, Chairman, called the meeting to order and asked for a motion to approve the Minutes of the March 21, 2011 meeting. On motion of Caren Franzini, second by Charles Richman the Minutes were approved unanimously. He then asked Peter Lijoi to update the Audit Committee on the status of the Audit work.

Peter Lijoi noted that the FY 2010 draft audit work was complete. He further reported that the Comprehensive Report of Authority Operations for FY 2010 prepared pursuant to EO 37 (Corzine) was drafted by staff and included in the package for review by the Committee as part of the Audit review. He commented that, per its procedures, as well as EO 122 (McGreevey) the Audit Committee is required to review the draft annual financial report prior to release, and consider the relevancy, accuracy, and completeness of the information presented, and subsequent to its review should, at the next regular Authority Meeting, inform the Authority Board that it has completed the review of the financial statements in accordance with EO 122 and Audit Committee procedures. Peter Lijoi asked Don Conway of Mercadien to discuss their work and the report.

Don Conway, of Mercadien, reported that the FY 2010 Audit was conducted and prepared in accordance with Government Accounting Standards. He noted that Mercadien reviewed management's discussion and analysis and accepted it and further they had received the requested letter from the DAG indicating an absence of pending litigation or claims against the Authority. Don Conway, of Mercadien, indicated that changes to the Financial Statements, Note G, page 14 were made and asked if anyone on the Committee had any comments or concerns. The Committee had none. Charles Richman noted that the Audit was clean without concerns? Don Conway affirmed same indicating that the Audit was being issued without conditions, exceptions or adverse findings.

Page 2

NJUEZA 2010 AUDIT COMMITTEE MEETING MINUTES
Monday, September 12, 2011, 3:00 PM

Peter Lijoi asked about future disposition of Note G. Ann Zawartkay, of Mercadien, noted that Note G in the Financial Statements will not carry forward into FY 2011. She further commented on amounts due from the State on Page 7 noting that it included repayment of over payments of funds advanced to the State for interest income (which per the statute the UEZ does not retain), and accruals for amounts due the State for administration (3.3%) by DCA, Labor, and Treasury.

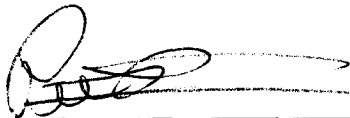
Chuck Richman asked that the FY 2010 Audit be forwarded along with the appropriate reports required by EO 37 (Corzine) and EO 122 (McGreevey) to the UEZ Authority for review and adoption.

Caren Franzini noted, for the record, that a discussion took place as to whether a meeting was necessary between the auditors, and the committee without staff present. It was noted that a meeting without staff was held with the Audit Committee and the Auditor at the March 21, 2011 Audit Committee meeting and the Audit Committee decided that an additional meeting was not necessary.

Chuck Richman asked Peter Lijoi to report on the status of the FY 2011 Audit. Peter Lijoi noted that, in accordance with DCA procurement procedures, proposals for the FY 2011 Audit had been requested, one was accepted, and a purchase order was issued to Mercadien, to conduct the work. The Audit work is expected to begin in mid-October after the FY 2011 books are closed and the final FY 2011 monthly report is completed by Flynn Fleming.

A motion was made by Caren Franzini and seconded by Charles Richman to accept the FY 2010 Audit Report and FY 2010 Report of Authority Operations and recommend same to the Authority Board at its next regular meeting. The motion was adopted unanimously.

There being no further action, the meeting was adjourned at 3:55PM.



Prepared by: Peter B. Lijoi, Esq., Executive Director

NJUEZA 2011 AUDIT COMMITTEE MEETING MINUTES
Wednesday, February 29, 2012, 3:30 PM
NJ Department of Community Affairs
Teleconference

ATTENDEES:

Charles Richman, Chairman, UEZA Audit Committee
Caren Franzini, Deputy Chairman, UEZA Audit Committee
Patricia Roach, Deputy Attorney General
Bob Bartolone, Director, Office of Auditing, DCA
Peter B. Lijoi, Executive Director, UEZA
Flynn Fleming, Accountant, DCA
Ann Zawartkay, Mercadien
Eric Jaso, Audit Committee Member
Nicole Crifo, Governor's Authorities Unit

Charles Richman, Chairman, called the meeting to order and asked for a motion to approve the Minutes of the September 12, 2011 meeting. On motion of Caren Franzini, second by Charles Richman the Minutes were approved unanimously. He then asked Peter Lijoi to update the Audit Committee on the status of the Audit work.

Peter Lijoi noted that the FY 2011 draft audit work was complete. He further reported that the Comprehensive Report of Authority Operations for FY 2011 prepared pursuant to EO 37 (Corzine) was drafted by staff and included in the package for review by the Committee as part of the Audit review. He commented that, per its procedures, as well as EO 122 (McGreevey) the Audit Committee is required to review the draft annual financial report prior to release, and consider the relevancy, accuracy, and completeness of the information presented, and subsequent to its review should, at the next regular Authority Meeting, inform the Authority Board that it has completed the review of the financial statements in accordance with EO 122 and Audit Committee procedures. Peter Lijoi asked Ann Zawartkay of Mercadien to discuss their work and the report.

Ann Zawartkay, of Mercadien, reported that the FY 2011 Audit was conducted and prepared in accordance with Government Accounting Standards. She noted that Peter Lijoi and staff did an excellent job and within a timely manner. She also noted that the audit was tailored to review one transaction for every municipality. No errors were found and no adjustments needed to be made to the trial balance. Ann asked if anyone on the Committee had any comments or concerns. Caren Franzini asked about the \$19 million. Ann explained this was the balance due as of 6/30/11.

No other Committee members had any questions or concerns.

Page 2

NJUEZA 2011 AUDIT COMMITTEE MEETING MINUTES
Wednesday, February 29, 2012, 3:30 PM

Charles Richman noted that the Audit was clean without concerns? Ann Zawartkay affirmed same indicating that the Audit was being issued without conditions, exceptions or adverse findings.

Ann Zawartkay, of Mercadien, asked if anyone wanted to change any of the Notes. Peter Lijoi asked about Note 10, Executive 150. Ann explained that it needs to be disclosed because the Executive Order and MOU has not been rescinded and is still in existence even though it was never acted upon or intended to be acted upon. Caren Franzini asked if we should refer to the \$88.3m transfer to the General Fund from the Enterprise Zone Assistance Fund ("EZAF") in Note F. Ann Zawartkay recommended that it be included but will add a note referencing the FY 2012 Budget Law directing the transfer. Caren Franzini also queried about the last sentence in Note F. After discussion it was agreed to remove the sentence as the amounts are reflected on the Balance Sheet.

Chuck Richman asked that the final FY 2011 Audit be issued and forwarded along with the appropriate reports required by EO 37 (Corzine) and EO 122 (McGreevey) to the UEZ Authority for review and adoption.

Chuck Richman noted, for the record, that a discussion took place as to whether a meeting was necessary between the auditors, and the committee without staff present. It was noted that a meeting without staff was held with the Audit Committee and the Auditor at the February 29, 2012.

A motion was made by Eric Jaso and seconded by Caren Franzini to accept the FY 2011 Audit Report to the Authority Board at its next regular meeting. The motion was adopted unanimously. Roll Call; Chuck Richman, Caren Franzini and Eric Jaso.

Peter Lijoi noted there will be an FY 2012 Audit. Peter Lijoi noted that, in accordance with DCA procurement procedures, proposals for the FY 2012 Audit will be requested.

There being no further action, the meeting was adjourned at 4:00PM.


Prepared by: Lisa Migliaccio, Board Secretary



State of New Jersey
URBAN ENTERPRISE ZONE AUTHORITY
101 SOUTH BROAD STREET
PO Box 822
6TH FLOOR
TRENTON, NJ 08625-0822

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

RICHARD E. CONSTABLE, III
Acting Commissioner

January 3, 2012

Deborah Gramiccioni, Director
Governor's Authorities Unit
State of New Jersey
Office of the Governor
PO Box 001
Trenton, NJ 08625

Re: Executive Order 41 (Codey) - Ethics Training Certification; Executive Order 41 (Codey) – Audit Committee Certification; Executive Order 41 (Codey) – Certification of Compliance with EO 134 (Superseded by P.L. 2005, C.51)

Dear Ms. Gramiccioni:

In response to your Memo of December 22, 2011 set forth below is my certification as Executive Director as to the Authorities Annual Obligations under Current Executive Orders due January 1, 2012.

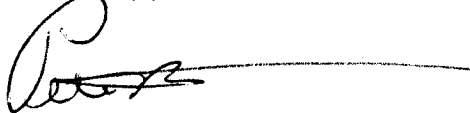
- Members of the New Jersey Urban Enterprise Zone Authority ("NJUEZA") have completed Ethics Training pursuant to Governor Codey's Executive Order 41, issued June 15, 2005 and my certification as to compliance with same was forwarded to your unit by correspondence dated November 28, 2011.
- Pursuant to Governor Codey's Executive Order 41 issued June 15, 2005, I certify that the NJUEZA has a standing Audit Committee consisting of three members of the Authority, one alternate Authority member, and an outside member of the with financial expertise. The members include Charles Richman, Chair, Caren Franzini, Taneshia Nash Laird, Authority Alternate, Eric Jaso, and Independent Member with Financial Expertise, Robert Bartolone, MBA, CICA. Peter Lijoi, Executive Director serves as staff to the Audit Committee. In as much as the NJUEZA is in but not of the New Jersey Department of Community Affairs ("DCA"), the NJUEZA has retained the services of Auditors on the DCA approved Auditor List that have been procured through the competitive bid process in accordance with State regulations pertaining to its Departments.



- Pursuant to Governor Codey's Executive Order 41, issued June 15, 2005, I certify that the NJUEZA complies with the requirements of P.L. 2005, C.51 and Executive Order 117 (2008), for the year ending December 31, 2012. P.L. 2005, C.51 and Executive Order 117 (2008) define procedures designed to limit or ban campaign contributions by vendors and tenants doing business with the State and its various commissions, boards and independent authorities. In as much as the NJUEZA is in but not of the DCA the NJUEZA utilizes the competitive procurement services of the DCA in accordance with State regulations pertaining to its Departments.

If you require additional information regarding this certification or any other matters of compliance with set forth in the letter please contact Peter B. Lijoi, Esq., Executive Director at 609-292-1912 or peter.lijoi@dca.state.nj.us.

Very truly yours,

A handwritten signature in black ink, appearing to be 'Peter B. Lijoi', followed by a long horizontal line extending to the right.

Peter B. Lijoi, Esq.
Executive Director

PBL: ims

Cc: Caren Franzini, Chairperson
Charles Richman, Audit Committee Chairperson